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TAGS: [PGOV](#) [KCRM](#) [EPET](#) [SOCI](#) [EINV](#) [PE](#)
SUBJECT: CORRUPTION SCANDAL PUTS GOVERNMENT ON THE DEFENSIVE

Classified By: Ambassador P. Michael McKinley for
reasons 1.4 (b) and (d).

¶1. (C) Summary: A brewing scandal involving alleged kickbacks to government officials and APRA party insiders threatens to shake up the cabinet. The opposition has hinted that more sensational audio tapes potentially incriminating Prime Minister Jorge Del Castillo and Health Minister Hernan Garrido-Leca may be released soon. President Garcia has swiftly moved to contain the damage by accepting the resignation of the Energy and Mines Minister and denouncing corruption as "treason" perpetrated by "vipers" who should be rooted out. While Garcia's APRA party is vulnerable given alleged widespread corruption during his first administration (85-90), his second government largely avoided scandal during its first two years. Moreover, the potential departure of PM Del Castillo, the GOP's most effective manager, would be a serious loss. End Summary.

¶2. (C) On October 6, following damaging excerpts of audio tapes of unknown origin that aired on a popular television program, the government quickly moved to dismiss Peru-petro Director and local lawyer-operator Alberto Quimper and accepted the resignations of Peru-petro president Cesar Gutierrez and Minister of Energy and Mines Juan Valdivia. The tapes suggested that an oil concession contract awarded to the Norwegian company, Discover Petroleum, was tainted by corruption; more concretely, that the Norwegian company had paid bribes to officials in return for political help in gaining the concession rights for five promising oil blocks. Soon afterwards, the deputy Justice Minister and a public prosecutor filed formal charges against Quimper, Romulo Leon Alegria (a former APRA minister, ex-congressman and APRA party insider) and a top Peruvian attorney, Ernesto Arias Schreiber. Quimper has since been arrested, Leon Alegria is missing, and Arias Schreiber has publicly proclaimed his innocence in the matter.

¶3. (C) Meanwhile, Congress has formed a committee to launch a probe into the affair and has raised the prospect of formal hearings ("interplelaciones"), which could lead to a censure motion as soon as October 14. Congresswoman Luciana Leon, the APRA's youngest legislator and daughter of accused Romulo Leon Alegria, said she would support the probe. Peruvian Nationalist Party (PNP) leader Ollanta Humala has also called for a full investigation into all of Perupetro contracts. Congress began hearings on the issue October 9 in a session in which all cabinet members were present, but PNP representatives abandoned the legislature halfway through,

claiming the cabinet had not been invited. (Some observers believe the Congress may have second thoughts about formally censuring the PM -- and by extension the entire cabinet -- because the Constitution enables the President to dissolve Congress should it take such a dramatic step more than once. In this sense, formally censuring the PM now would free the future cabinet from the threat of any such measure.)

14. (SBU) During his speech at the October 8 ceremony commemorating the Peruvian Navy's 187th birthday and the 129th anniversary of the battle of Angamos, President Garcia forcefully lashed out against bribery and the "vipers" who practiced it. "Corruption is treason against the country", he said, as he appealed for Congress to help "in rooting out the rot that causes our people to doubt us." Garcia also promised that the guilty parties in the Peru-petro affair would be sanctioned by pledging that "(w)e are going to do for Grau (a 19th century Peruvian naval hero) what needs to be done: let the necessary heads fall so that Peru can move ahead."

15. (C) Many analysts believe that, to preempt Congressional action, the President is likely to call for the resignations of several additional Ministers. Prime Minister Jorge Del Castillo and Health Minister Hernan Garrido Lecca are the two cabinet members currently under the most pressure to resign. Both Ministers have been publicly associated with the scandal, and, while denying any involvement in corruption, have admitted to holding meetings with the operators that facilitated the deal in question. The extent of these Ministers' involvement -- if any -- remains unclear, though several Embassy contacts suggest that more damning audio evidence connecting them and/or others will soon be released.

16. (C) Comment: It is not clear whether the Peru-petro corruption scandal is "only the tip of the iceberg", as some of our contacts assert. But its timing is awkward on the eve of next month's APEC summit -- especially as Peru seeks to attract further foreign direct investment during the severe global credit crunch (septel). Moreover, Peruvians are sensitized to influence-peddling scandals and recall the "Vladi-video" episodes in the waning days of the Fujimori dictatorship, when egregious acts of corruption were revealed in video-taped images during nightly TV news programs. At the same time, Garcia's first term as president (85-90) was characterized by alleged widespread corruption, and one of the figures in the current scandal corruption, Romulo Leon, was a Minister in that administration well known for dipping into public coffers. Garcia clearly wants to avoid a repeat of the same problem this time around, but he is potentially vulnerable. Finally, the potential departure of PM Del Castillo, the government's most effective crisis manager, would be a significant blow to the administration.

MCKINLEY